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C O N F I D E N T I A L SECTION 01 OF 03 PANAMA 002937

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SUBJECT: PANAMA, THE G4 AND "PLAN PUEBLA"

REF: PANAMA 02452

Classified By: Ambassador Linda Watt for reasons 1.4 (b) & (d).

SUMMARY

1. (C) Mexican President Vicente Fox publicly endorsed Panama's inclusion in the G3 (Venezuela, Colombia and Mexico) during his November 2-3 visit to Panama. According to MFA Advisor Nils Castro and International Organizations Director Javier Bonagas, the GOP's primary interest in joining the G4 is to integrate Panama's economy with the much bigger G3 markets and thereby make Panama an economic bridge between the Andean countries and Mexico. Panamanian policy makers believe joining an informal G4 grouping will help them meet Panama's foreign relations objectives (see reftel) of developing the economy, attracting foreign investment and improving job opportunities. One drawback to joining the G4 is that the GOP is wary of expanding economic ties with Mexico to the point that its farmers drown in a tidal wave of Mexican agricultural products. Joining the G4 may increase economic ties with Colombia, but also bring unwanted Colombian proposals to extend the Pan-American highway through the Darien gap, which Panama is trying to fend off. Panama and Colombia are also discussing natural gas and electrical links with Venezuela. End Summary.

JOINING THE G4

2. (C) During his November 2-3 visit to Panama, Mexican President Vicente Fox encouraged Panama to join the (G3) Group of Three (Venezuela, Colombia and Mexico) which began with a three-way FTA in 1995 and had its first summit in April 2001. While Colombia initially opposed Panama's membership, at a November 5 meeting in Brazil, Panama Vice President Samuel Lewis Navarro joined Venezuelan President Hugo Chavez, Colombian President Alvaro Uribe and President Vincente Fox to formally announce Panama's inclusion in the Group of Four (G4). From Panama's view, MFA Advisor Nils Castro told PolOff on November 24 that while the G4 is a political, social and economic agreement, Panama mainly wants to use the G4 as a four-way FTA. Ultimately, Panama wants to expand its relations to the Andes region and negotiate FTAs with Peru, Ecuador and possibly Chile.

COURTING MEXICO

3. (C) In truth, Castro continued, Chile is a much better FTA partner for Panama because the two countries cultivate different agricultural products making their markets complementary, rather than competitive. Mexico by contrast produces many of the same products as Panama, but with greater resources and 30 times the population, so Panamanian farmers could not compete. Panama must have safeguards to protect a large sector of its work force that relies on commercial agriculture, explained Castro. Mexico is offering some sweeteners to Panama, for instance, extended professional visas for Panamanian businessmen and possible removal of Panama from a taxation "black list." More than a dozen big-name Mexican investors accompanied Fox to Panama. They included Carlos Slim, who owns Carso Group; Lorenzo Zambrano, Latin America's richest man according to La Prensa, who owns Cemex (one of the world's largest cement manufacturers); Ricardo Salinas Pliego, owner of Azteca Television; Bernardo Quintana, founder of Civil Engineers Association, Inc., and others. Fox claimed that Mexican investment in Panama currently totals \$1.2B.

14. (C) During a recent meeting, Mexican Embassy Political Officer Armando Obregon Jimenez told PolOff that Mexico's interest in including Panama in the G4 is linked to another regional initiative, Mexico's Inter-American Development Bank proposal, Plan Puebla Panama (PPP). PPP includes eight countries: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Mexico and Panama. PPP is an integrated social and economic proposal to spur development of Central American infrastructure including trade, disaster response, regional utilities, roads and other public works projects, using Inter-American Development Bank funding. PPP began with the 1991 Tuxtla Agreement between Mexico and seven Central American nations and was formally launched ten years later on June 15, 2001. Mexico sees Panama's inclusion in both the G4 and the PPP as critical for regional development due to its central geographical location.

AVOID THE ROAD TO COLOMBIA

15. (C) In a resolution signed November 18 in San Jose, Colombia joined the PPP as an observer. Both the PPP and G4 give Colombia more avenues to pressure Panama for a road through the Darien gap. Nils Castro, the GOP's PPP representative, said that the GOP is seeking alternative solutions to avoid the highway discussion but continue with other links. One option is sub-oceanic gas and electric pipelines from Venezuela, through Colombia and along the Caribbean coast of Panama. That route would maintain the integrity of the Darien gap, which acts as a natural barrier against hoof and mouth disease, malaria, screw worm and other diseases. Already facing problematic illegal immigration and narco-arms trafficking from Colombia, Panama is less than eager to open a new immigration route to Colombia. Panama environmentalists also strongly oppose building a road through the Darien. Castro explained that the GOP is working on alternate plans of ferry transport along the Caribbean coast and/or new air freight routes between the two nations for commercial goods. Currently, he said Panama-to-Colombia air connections are passenger flights.

16. (C) Eventually, Castro said, a road to Colombia will be built. However, the GOP hopes to wait until they have developed enough of a tax base to reinforce their customs, immigrations and public forces to ensure security at the Colombia-Panama border crossing when it opens. He voiced concern about public reaction to a road. Panamanians currently associate Colombia with violence, drugs, kidnappings and illegal immigrations. They will not tolerate discussion of a road now, Castro explained.

VENEZUELAN GASOLINE AND NATURAL GAS

17. (C) Panama has high hopes of using the G4 to reduce the high cost of fuel. Panamanian Public Forces (PPF) and the National System of Civil Protection (SINAPROC) frequently complain that they can not respond to floods or suspicious aircraft or boats due to the lack of fuel. While the government is currently operating under an austerity budget, the additional problem is that the cost of fuel is high and officials have been announcing regularly in the press that they intend to seek assistance from Venezuela to lower the cost of fuel in Panama. Castro also said that Panama must look for alternate fuels and mentioned natural gas-operated bus systems in other countries. Castro said that GOP priorities for Venezuela are primarily for natural gas. Newspaper reports indicate that relations with Venezuela could lower fuel prices. Castro said the GOP has no other commercial relations with Venezuela.

COMMENT

16. (C) The GOP accurately sees Panama as a minnow swimming with whales and is trying to advance its foreign relations and economic agendas to expand its economic base without getting crushed in the process. Senior GOP officials, including Minister of the Presidency Ubaldo Real and Minister of Trade and Industry Alejandro Ferrer, have extolled the benefits that NAFTA has brought to Mexico as a way of pushing a pro-free trade agenda. Given the "thinness" of expertise at the top, the GOP risks overextending itself in joining the G4. The G4, the PPP, Colombia's pressure for a road, and Mexico's pressure to open the Panama market all

present positive and negative possibilities which Panama is struggling to manage politically.

WATT